



U.S. Department of Justice

*United States Attorney's Office
Eastern District of New York*

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DSS/CMT

271 Cadman Plaza East
Brooklyn, New York 11201

July 1, 2014

BY ECF

The Honorable John Gleeson
United States District Court
Eastern District of New York
225 Cadman Plaza East
Brooklyn, New York 11201

Re: United States v. HSBC Bank USA, N.A. and
HSBC Holdings plc
Criminal Docket No. 12-763 (JG)

Dear Judge Gleeson:

Pursuant to the Court's July 1, 2013 order directing the government to file quarterly reports regarding the implementation of the deferred prosecution agreement ("DPA") in the above-captioned matter, the government submits this status report.

During the last quarter, the Monitor completed the first annual assessment of HSBC Holdings' Office of Foreign Asset Control ("OFAC") compliance program (the "OFAC Compliance Review") as required under the Federal Reserve Board's December 2012 cease and desist order. As part of the OFAC Compliance Review, the Monitor concluded that HSBC Holdings plc ("HSBC Group") and HSBC Bank USA, N.A. were working in good faith to build an effective sanctions compliance program. The Monitor further noted that HSBC's new sanctions policy was a substantial step toward a rigorous, uniform, Group-wide sanctions program. The Monitor also found several areas where HSBC needed to make enhancements to its sanctions program including improving its collection of data on customers, increasing its capacity to share data between affiliates and across business lines, continuing to make investments in information technology, and improving the program's oversight and governance mechanisms.

The Monitor made several recommendations to help HSBC meet these objectives.

The Monitor has also begun work on the First Annual Follow-Up Review, which is the first of a series of annual reviews of HSBC's anti-money laundering and sanctions compliance programs that are required under the DPA. The Monitor intends to satisfy his duties in connection with the First Annual Follow-up Review through a year-long cycle of ongoing, continuous monitoring that will consist of three inter-related components: (1) phased reviews of country-specific operations within HSBC that are intended to provide the Monitor a reasonable degree of visibility into HSBC's implementation of its global anti-money laundering and sanctions program at the country level; (2) thematic reviews of HSBC's anti-money laundering and sanctions compliance programs within certain business lines; and (3) monitoring Group-wide implementation of enhancements to anti-money laundering and sanctions compliance policies, procedures, training and infrastructure.

Finally, HSBC Group and the Monitor agreed on deadlines for implementation of various recommendations set forth in the Monitor's Initial Review of HSBC's Group's anti-money laundering and sanctions compliance programs. HSBC Group is currently working toward implementing these recommendations.

Respectfully submitted,

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